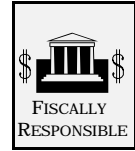


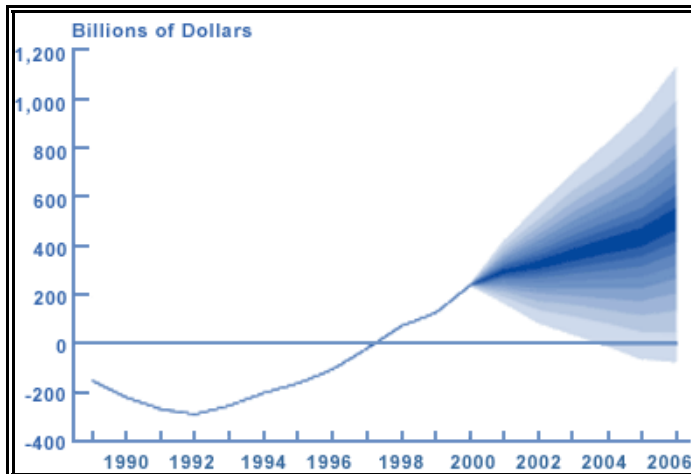
## Tax Cuts Should Be Within A Responsible Budget



Democrats make substantial tax cuts a high priority, but not the only priority. Democrats want tax cuts to be as big as possible while simultaneously fulfilling the other promises they and President Bush have made to the American people. These include:

- ✓ keeping Social Security and Medicare surpluses off-limits
- ✓ providing a prescription benefit for seniors
- ✓ improving our public schools
- ✓ keeping a strong defense including a military pay raise
- ✓ paying down the nearly \$3.4 trillion debt held by the public

President Bush says he makes room for these in his budget. But the President's budget does not add up. Bush's tax cuts would



lead to an invasion of Social Security and Medicare surpluses unless CBO's already optimistic surplus projections turn out to be substantially understated. This is possible but it is just as possible that there will be a much smaller surplus than projected, or no surplus at all within the next decade. The CBO chart (left)

shows the uncertainty of projections for even the next five years for the total surplus including Social Security and Medicare surpluses.

Surplus projections are very uncertain, and become even more unclear beyond five years. A sound budget should ensure that, if the projections do not materialize, Congress is not forced to make drastic cuts in Social Security and Medicare or other vital programs or again run up huge deficits, seriously damaging the economy.

"These projections are based on a set of assumptions that may or may not hold – no one should design a tax or spending policy pegged to the precise numbers in any 10-year forecast." - **Comptroller General David Walker**

"With today's euphoria surrounding the surpluses, it is not difficult to imagine the hard-earned fiscal restraint developed in recent years rapidly dissipating. We need to resist those policies that could readily resurrect the deficits of the past and the fiscal imbalances that followed in their wake."

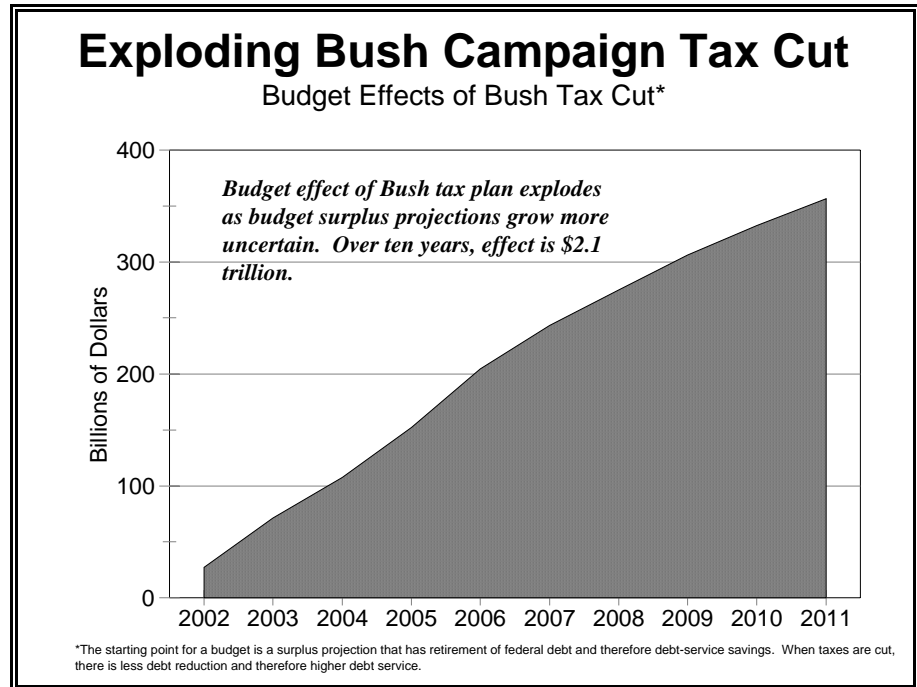
- **Federal Reserve Chairman Alan Greenspan, January 21, 2001**

"The favorable outlook for the next several years, however, is subject to considerable uncertainty. ... In recent years, economic growth has surpassed expectations, fueling projections of higher revenues and bigger surpluses. A downturn in the economy, depending on its severity and duration, could greatly diminish or even eliminate surpluses over the next few years. ... (O)ver the longer term, budgetary pressures linked to the aging and retirement of the baby-boom generation threaten a return to high deficits and unsustainable levels of federal debt."

- **CBO *The Budget and Economic Outlook*, January 2001**

The Bush budget leaves no such room. In fact, it pledges in advance all of the projected non-Social-Security non-Medicare surpluses to tax cuts. That would be like a person buying a fancy car today with all of the Christmas bonuses that she expects to get over the next ten years. If those bonuses do not come about, she could be in big trouble. The nation also will be in trouble if we pass a tax cut that drains the 10-year surpluses and then these uncertain surpluses fail to materialize.

The danger becomes even more profound in the long term. As the years pass, Bush's tax plan phases in more tax cuts, mostly for the wealthy, exhausting more and more surplus. Bush's tax plan creates a time bomb that will explode just when future generations confront an increasing number of retirees.



Given these uncertainties and future challenges, Congress should not drive blind by passing massive tax cuts without a budget roadmap. Before passing large new tax cuts or spending increases, a sound budget that devotes sufficient resources to Social Security and Medicare, debt reduction, and other vital priorities should be in place. The budget also should be responsible enough to prevent disaster even if projected surpluses do not occur.

The responsible Democratic budget uses 1/3 of the non-Social Security, non-Medicare surplus for vital priorities; 1/3 of the surplus would go directly to the pockets of families through fair tax cuts; and, the budget sets aside 1/3 of the surplus for paying down debt, the equivalent of saving to ensure that the resources will be there should we need them.

